Chapter VII

FINDING AND CONCLUSION

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7.1 Major Findings

The Profit margin of companies was analysed to find out the level of their operating, gross and net margin on sales.

The Operating profit margin has been under 20 percent throughout the period as the companies are related to the industry, which involves heavy manufacturing processes and have higher operating cost. The Chi-square test of operating profit as compared to estimated operating profit based on regression analysis operating profit margin and sales reveal that the companies Ultradech having to use sales properly in order to generate operating profit.

The study of gross profit margin and net profit margin presents very poor status of companies in terms of profitability in relation to net sales.

The profit margin from operations have also been satisfactory. While Shree cement among the companies studied, has improved its operations efficiency during the last years.

The coverage of interest reveals higher variation throughout the study period across the companies, which is due to variations in operating profits rather than interest. No evidence of insolvency has been found in terms of interest payment.

The cash profit in the companies has also recorded a significant variation, which is due to variations in operating profit.

The gap between cash profit and net profit has been found significant as cement industry is capital-intensive industry and depreciation and other non-cash expenses play critical role in cost structure.

The concept of profitability was also assessed from the dimension of turnover with regard to assets employed by the company. The operating assets turnover revealed on an average sales generation equivalent to their operating assets. However, substantial variations were found within the company and intercompany comparison as well.

Chi-square test was applied to compare actual sales with estimated sales based on regression lines between sales and operating assets. The analysis
concludes satisfactory performance of companies except Shree Cement and Ultratech Cement with regard to use of operating assets in generation of sales.

The total assets turnover among the companies was also found fluctuating throughout the study period Ultratech could used total assets in best manner to generate sales while The India Cement Company could generate sales equivalent to half of the total assets.

Fixed assets turnover was computed to see the adequacy of sales in relation to the investment to fixed assets generally a high fixed assets turnover ratio indicated the efficient utilisation of fixed assets in generating sales and vice-versa.

Similarly current assets turnover and working capital turnover were also studied with a view to appraise the companies based on the role of current assets and net current assets in generating sales. It is evident from the findings that the companies could maintain only a match between sales and fixed assets. The utilisation of current assets and net current assets have been improved by the companies during the study period.

The inventory, receivables and cash being the critical components of current assets were also studied to analyse their role in generation of sales. The ratios were, exception a part, has been found satisfactory.

The difference in receivables turnover among the companies clearly reflect greater deployment of funds in extension of credit by some companies particularly Ultratech Cement.

The return on investment measures the overall profitability of a company as the end result of profit margin and assets turnover. The return on investment ratio is important, particularly in cement companies, due to higher size of investments in assets. The ratio has fallen substantially during the first six years of the study. However, it has slightly improved in the last year. Chi-square test was also applied to test the difference between actual operating profits computed using regression lines between operating profit and operating assets employed in the companies under study. Results of chi-square test explain that the company except Shree Cement has recorded satisfactory use of operating assets in generation of operating profit.
Return on capital employed in all the three dimensions that is gross capital employed, net capital employed and equity shareholders employed was also assessed. All the three ratios verify the findings that the variation in profitability with regard to investment in company are due to variations in operating costs. Capital employed in different assets were found to be less responsible for variations in return on gross capital employed, net capital employed and equity shareholders capital employed as well.

Earnings per share and dividend payout ratio were also analysed to assess the profitability from investor’s point of view.

Ultratech Cement Company has been able to record constant performance in terms of Earning per share. While Madras cement recorded huge variations in Earning per share. Dividend payout being a important aspect of dividend policy that aims to maintain balance between distribution of earnings among shareholders and making funds available for reinvestment in the company, reveal that The India cement company has retained total earnings in three years out of total seven years of study. Moreover, the dividend payout ratio has varied significantly across the companies and over the years. Which proves lack of clear policy regarding disbursement of cash dividends to equity shareholders out of total earnings.

The study of net value added in by individual companies reveal that all the cement companies can be considered a healthy unit from value addition point of view as the largest share of net value addition has contributed government in the form of excise duty and taxation followed by the employees and providers of capital on the whole.

Thus, the companies under study have been found successful in fulfilling their responsibility towards the society at large.

7.2 Conclusions

The cement industry being a part and parcel of construction activities plays critical role in the economic growth of the country. The challenges particularly the factors affecting financials of these companies have been studied in the present work and concluded as under.
Based on above findings with regard to profitability analysis of selected cement companies in India. It may be concluded that the constitution of total costs remains unchanged in a company over a period of time, while wide variations were found across the companies.

This generalizes presence of difference in policies of the companies and thus, the cost structure of the companies vary significantly.

Cost of goods sold, being a critical components of overall profitability of the companies, has varied drastically with no definite trend. It may be concluded that it is due to varied cost of raw materials. This kindles variations in operating profits and affects consistency in profitability.

The study of liquidity and profitability conclude that the companies in the industry do not follow a common line. This evidence that it is rather the policies of the companies than the type of industry, which influences the liquidity and profitability status of cement companies in India.

The analysis of profit margin also concludes the lack of stability in different profit margins such as operating profit margin, gross profit margin and the net profit margin due to changes in cost structure, which results in variations in operating cost of the companies.

The analysis of relation between assets and sales concluded that the assets have been utilized, on an average, satisfactorily by the companies. However, the ratio is not high as the size of assets in these companies is critically huge.

The findings from return on investment concludes that return on capital employed in all the three dimensions has wide variations and the capital employed in different assets are less responsible for such variation rather the changes in operating costs has been the major reason behind the varied return on investments.

Earnings per share are also found unstable due to overall variations in the profitability in companies. Further, varied dividend payout concludes the lack of stringent policy with regard to disbursement to cash dividends to equity shareholders. Companies under study have no similarity on account of dividend policy and dividend decisions are not industry influence.
The multiple discrimination analysis concludes that the two companies that is Madras Cement and The India Cement are critical in terms of financial health and calls for immediate measure to improve the situation. Excess working capital in relation to turnover, under utilisation of available capacity, excess debt components in total capital and low percentage of operating profits are the critical areas of cement companies in India.

The Companies have been able the fulfill their responsibility towards society by contributing value addition to the government, employees and capital providers.

These challenges need to be understood and addressed in totality with a view to identify the measure for strengthening the industry. Availability of raw material and its costs is economy driven and thus are beyond the control of the companies most of a time. However, proper utilisation of available production capacity, restricted use of debt capital and maintaining adequate level of working capital can improve the profitability of companies to great extent.

7.3 Scope for further research

The present study has covered selected five companies of cement industry in India and has been able to point out the areas for strengthening of their financial position. However, similar researches can be carried out for other industries with a view to recommend key areas to focus for improvements in financial performance. Moreover, inter industry comparison can also be done to generalise whether same aspects play common role in financial performance of companies and to find out exclusive factors for different industries to pave a way for formulation of exclusive strategies to improve performance of all industries in economy.